

MINUTES

**MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 22, 1999 at 9:00 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Bob DePratu, Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Dorothy Eck (D)
Sen. E. P. "Pete" Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Alvin Ellis Jr. (R)
Sen. Bill Glaser (R)
Sen. Barry "Spook" Stang (D)

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: None
Executive Action: SB 509

EXECUTIVE ACTION ON SB 509

Motion: SEN. BOHLINGER MOVED SB050901.ALH, **EXHIBIT**(tas64a01).

Discussion:

SEN. BOHLINGER said his amendment to **SB 509** proposes to increase the accommodations tax by 2%. Each 1% increase will provide the state with an additional \$2.5 million in revenue. **SEN. BOHLINGER**

referred to a report provided by the travel industry which indicates that the national average accommodations tax is 12.36%, and this increase would raise Montana's tax to 6%, still one-half the national average. He said the committee had heard testimony during the hearing on **SB 509** that 60% of the revenue that is generated is paid by tourists and people passing through Montana, with 40% being paid by Montanans.

SEN. BOHLINGER said this would generate \$5 million more for Montana. He is proposing that in the first year that additional \$5 million be used to make the cultural trust whole. In subsequent years that additional \$5 million would be spent as follows: \$200,000 would go to the Montana Historical Society; \$200,000 to the Main Street Program; \$400,000 to Fish, Wildlife & Parks; \$400,000 to the Heritage Preservation Program; \$600,000 to cultural and aesthetic projects in Montana; \$200,000 to the Lewis and Clark Commission; and finally, \$3 million to local governments, \$1.5 million to cities and towns on a proportional basis in relation to how the monies are collected to be earmarked for police and fire protection, and \$1.5 million will be made available to local governments on a proportional basis for a grant program to fund local museums, zoos, parks, restrooms, et cetera.

CHAIRMAN DEVLIN asked what kind of a fiscal impact this will have, and **SEN. BOHLINGER** said he did not have a Fiscal Note, and he could not estimate what the cost would be to the state, but it will add \$5 million of revenue to the state of Montana. It would have a net positive impact.

SEN. ECK asked if there was a section in the bill that provides that some of the money from the bed tax goes to the General Fund to take care of those additional state expenses. **Mr. Heiman** said that is on page 3, line 6, the 4% reduction, and in this amendment that is increased to 6%, so it would remain neutral.

SEN. ELLIS said he opposed the amendment. He said this bill is nothing more than a raid on the bed tax, and it is his feeling that the state does not have an obligation to do infrastructure in towns and cities in this manner. He said this tax was designated for the specific purpose of promoting Montana, and it should continue to do that.

SEN. STANG said he resists the motion. He said he sat on two interim committees that dealt with this problem, and both of those committees said they would support a local option sales tax or resort tax before they would support an increase in the lodging tax. **SEN. BOHLINGER** responded by saying again that the national average is 12.3%, and at 6%, Montana would be less than

half that national average, so it would not provide a competitive disadvantage to anyone in Montana. This bill could provide an opportunity for those businesses to get a tax break because some of the local costs could be funded by this tax, thereby taking some of the load off property taxes.

SEN. ELLINGSON said he was in favor of the amendment, even though he had some reservations about the bill as it is currently drafted. This increase is certainly within reason, and it would increase funding for certain specific tourist-related activities. He said he had some concern that the \$3 million designated for local governments is not specifically designated for tourism-related projects, and he would suggest that those grants be tightened up. He said his reservation with the bill itself is that there are no specifics stating that the monies going to the General Fund would be spent on promotion of tourism.

SEN. EKEGREN said he could not support this amendment.

SEN. ECK said she would support amending **SB 509** and sending it forward. She said expenses to local governments as a result of tourism are significant, and this could make a difference to those communities.

SEN. ELLIS said that Red Lodge is in need of infrastructure, but they have never suggested that this could be a source of revenue for that purpose. Instead, they have lobbied every session about not further raiding the bed tax.

In closing, **SEN. BOHLINGER** reminded the committee that when the bed tax was first imposed at 4%, it was done so over great protest by the hotel/motel industry, in spite of the fact that it would be earmarked for promotion. In fact, this brought more people to Montana and expanded the business of the hotel/motel industry. He said we must be progressive in our thinking and we must move forward. We must use these opportunities to provide funding for these very important functions that our local taxpayers just do not have funds available for. This 2% increase would provide revenues which could provide property tax relief.

Vote: Motion failed 3-6 with Devlin, Ekegren, Ellis, Glaser, Stang and Depratu voting no (Roll call vote #1).

Motion: SEN. BOHLINGER MOVED SB050902.AGP, **EXHIBIT**(tas64a02).

Discussion:

Mr. Heiman said these amendments raise the rate from 4% to 8%; provide an income tax credit for the amount of payments on

Montana income taxes; provide a change in distribution, and within that distribution, they are statutorily appropriated.

CHAIRMAN DEVLIN asked **SEN. GROSFIELD** to expand on the amendments. **SEN. GROSFIELD** said these amendments make three very significant changes to the bill. The most significant one raises the tax from 4% to 8%. It also provides a tax credit to Montanans for the entire amount of any bed tax that they pay. That translates to a \$4 million tax relief to Montana citizens. He said the next thing it does is reinstates the statutory appropriation, with portions of the bed tax going to the Department of Commerce and the regional tourism regions.

SEN. GROSFIELD then distributed a handout entitled "Bed Tax Calculations - Senate Bill 509, Resident Tax Credit, Revenue Neutral," **EXHIBIT (tas64a03)**. He said the first column demonstrates current law, the middle column demonstrates what this bill does, and the last column is the changes from current law allocations. Going down the middle column, he explained that the bed tax is set at 8%, with the assumption that the resident portion of that is 40% and 60% is nonresident. He said the figures at the bottom of that column, the \$11 million and \$12 million, came from the analysis that **Terry Johnson** did for the Revenue Oversight Committee. **SEN. GROSFIELD** then walked the committee through the changes in the amendments line by line.

SEN. ELLIS asked if the opponents had signed off on this amendment, and **SEN. GROSFIELD** said he did not really know where the opponents are on this. He said he had worked on the calculations sheet with Roger Lloyd and he felt those figures were pretty accurate.

SEN. STANG said he would oppose these amendments for the same reasons he opposed the others, but that he wanted to correct some information that **SEN. BOHLINGER** had given. He said that when the bed tax was first proposed, the hotel/motel industry did oppose it; but the year the bed tax was enacted, the hotel/motel industry supported the bed tax with the caveat that it should go to tourist promotion only. He said this bill and its amendments go completely against the recommendations of the Bed Tax Futures Committee, and he feels that the legislature should follow the advice of that committee or leave things alone.

SEN. GLASER said he would resist these amendments.

SEN. ECK said there would be no problem promoting Lewis and Clark, because those tourists will come regardless of any promotion. Montana's problems arise in taking care of those who come, because there are not adequate rest stations, sanitation,

water. She said these are all going to be major problems, and putting money into promotion is not going to solve these problems. Montana is not going to look good if facilities are inadequate, and unless something is done, they will be.

SEN. BOHLINGER said **SEN. GROSFIELD'S** amendments are innovative, especially the tax break to Montanans, and still provides funding for some of the worthwhile projects that he has identified. He said he supports this amendment.

SEN. EKEGREN asked if the rebates amount to \$9 million in the first year, and **SEN. GROSFIELD** referred him to the bottom of the page of the calculation sheet where it shows \$8 million a year for reduction in income tax revenues. He said he expects that not everyone will apply for that rebate.

SEN. ELLINGSON said that regardless of what happens to this particular amendment, it is a fascinating concept and it brings together a lot of the pieces of the puzzle that have been discussed in the bed tax area. He said he hoped that this would form the basis for further discussion with the travel industry over the interim.

SEN. ELLIS said that **SEN. ELLINGSON** had pointed out exactly how a concept like this should be approached, with the legislature and the tourism industry working together. He said he could not support this amendment.

Vote: Motion failed 3-6 with Devlin, Ekegren, Ellis, Glaser, Stang and Depratu voting no (Roll call vote #2).

Motion: **SEN. BOHLINGER MOVED THAT SB 509 DO PASS.**

Discussion:

SEN. STANG said that for the same reasons already stated, he would oppose the motion to do pass on **SB 509**.

SEN. GLASER said he does not like statutory trusts unless they are saving money in a sock for a future group to spend money on a rainy day, and he will not vote to refill that sock. He said he will vote no.

Substitute Motion/Vote: **SEN. ELLIS MADE A SUBSTITUTE MOTION THAT SB 509 BE TABLED. Substitute motion passed 6-3 with Bohlinger, Eck and Ellingson voting no (Roll call vote #3).**

ADJOURNMENT

Adjournment: 9:55 A.M.

SEN. GERRY DEVLIN, Chairman

SANDY BARNES, Secretary

GD/SB

EXHIBIT (tas64aad)